

The Nuts and Bolts of Public Defined Contribution Plans

Presented by:

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Putting clients first.





Today's Topics

- **Under Pressure**
Retirement Industry Trends
- **What's Love Got To Do With It**
Fiduciary Responsibilities
- **Who Are You?**
Plan Partners
- **Bridge Over Troubled Water**
Governance Best Practices
- **The Times They Are A-Changin'**
Plan Design & Investments
- **Suspicious Minds**
Fees & Expenses
- **What's Going On?**
Benchmarking Fees & Conducting RFPs



UNDER PRESSURE

- Continued pension reform and other political pressures
- Increased plan governance by formal plan committees
- Fee disclosure rules
- Public scrutiny and lawsuits
- Advances in recordkeeping technology
- Participant education and comprehensive retirement planning solutions
- Vendor consolidation

Plan Types

401(k)

- Corporations

403(b)

- Colleges
- Hospitals

457(b)

- Government
- Deferred Compensation
- Employee money

401(a)

- Government
- Defined Contribution
- Supplemental Pension
- Employer money

Shift in Risks

	Defined Benefit	Defined Contribution
Plan Investment Selection	Employer	EMPLOYER
Diversification / Asset Allocation	Employer	Employee
Determines Plan Expenses	Employer	EMPLOYER
Pay Plan Expenses	Employer	Employee
Funding (Plan Contributions)	Employer	Employee
Retirement Income	Employer	Employee



WHAT'S LOVE GOT TO DO WITH IT

and Breach

Sued Over Stable Value Fund Fees

EXTRA! EXTRA!
READ ALL ABOUT IT!

- ✓ Excessive fees
- ✓ Too many options
- ✓ Proprietary offerings
- ✓ Lack of oversight and ongoing due diligence

Participants
of Fiduciary

ids New Targets

Lawsuit Challenges TDF Selection,
Excessive Fees

Plans Still in ...
Challenge Plan Fees

airs: New Cases

- Integrity of procedures & processes
- Held to the standard of a prudent person
- Adoption of policies & procedures
- Continuous monitoring

As administrator of the City's 457 Plan "Plan", the City has fiduciary obligations for the oversight of the Plan. Fiduciary obligations are not centered upon the success of the Plan, but on the integrity of the procedures and processes that are developed and implemented for the Plan. Fiduciary status confers an expectation that the fiduciary is knowledgeable of its obligations and that it acts in the interests of the Plan participants.

The obligations for an administrator for a 457 Plan are described in the Government Code Chapter 609. The obligations include:

- Develop and implement criteria and procedures for evaluating a vendor's qualifications and its investment products to determine whether they are acceptable.
- Create and implement requirements for vendors and their employees for disclosure, reporting, standards of conduct, solicitation, advertising, relationships with current employees, and any other matters the City deems relevant to preserve the integrity of the Plan.

Once developed, these processes should be calendared for periodic review to ensure ongoing compliance. Expertise should be obtained to assist the City in performing these duties.

Although not specifically called for in the Code, as a fiduciary the City will be held to a standard of a prudent person in the performance of its Plan duties. This includes adopting policies related to investment practices, specifically an investment policy statement; a decision making system for selecting a plan investment manager; requiring periodic reporting of Plan performance in order to have effective oversight of the investment performance that is based upon the standards set forth in the Investment Policy Statement; and, remediation methods for the management of funds whose performances represent exceptions or deviations to the stated objectives of the investment Plan.

In sum, this is not a process that runs itself; it requires a commitment to the adoption of policies and procedures that at least meet the above and effective monitoring throughout the life of the Plan. Persons who assume any of these duties on behalf of the City must be well versed in and committed to these obligations.

- **ERISA – Employee Retirement Income Security Act of 1974**
 - regulates employer-sponsored retirement plans
 - imposes specific duties on plan fiduciaries
- **DOL – Department of Labor**
 - Enforces ERISA and ensures employers are making decisions in the best interest of plan participants
- **Florida Statute 112.656 *Fiduciary duties; certain officials included as fiduciaries.***
 - A fiduciary shall discharge his or her duties with respect to a plan **solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits to participants** and their beneficiaries and defraying reasonable expenses of administering the plan.

Am I a Fiduciary?

Do you...

- ✓ Have any discretionary authority or responsibility in the administration of the plan?
- ✓ Exercise any authority and/or control over the management or disposition of plan assets?
- ✓ Render investment advice to the plan and/or its participants for a fee or other compensation, whether direct or indirect?

Or do you...

- × perform certain ministerial administrative functions within a framework of the plan's policies, practices and procedures?

The key to determining the fiduciary status is based on **function and not simply on title.**



WHO ARE YOU?

- **Recordkeeper**

- Provides recordkeeping, plan administration and participant education
- **Best Practice:** Consolidate to single provider & require them to be open architecture with investments and transparent with fees

- **Investment Manager**

- Manages an investment portfolio in accordance with specific objectives
- **Best Practice:** simplified, open architecture investment lineup of 10-20 investments and a pre-diversified option (ie. Target date funds)

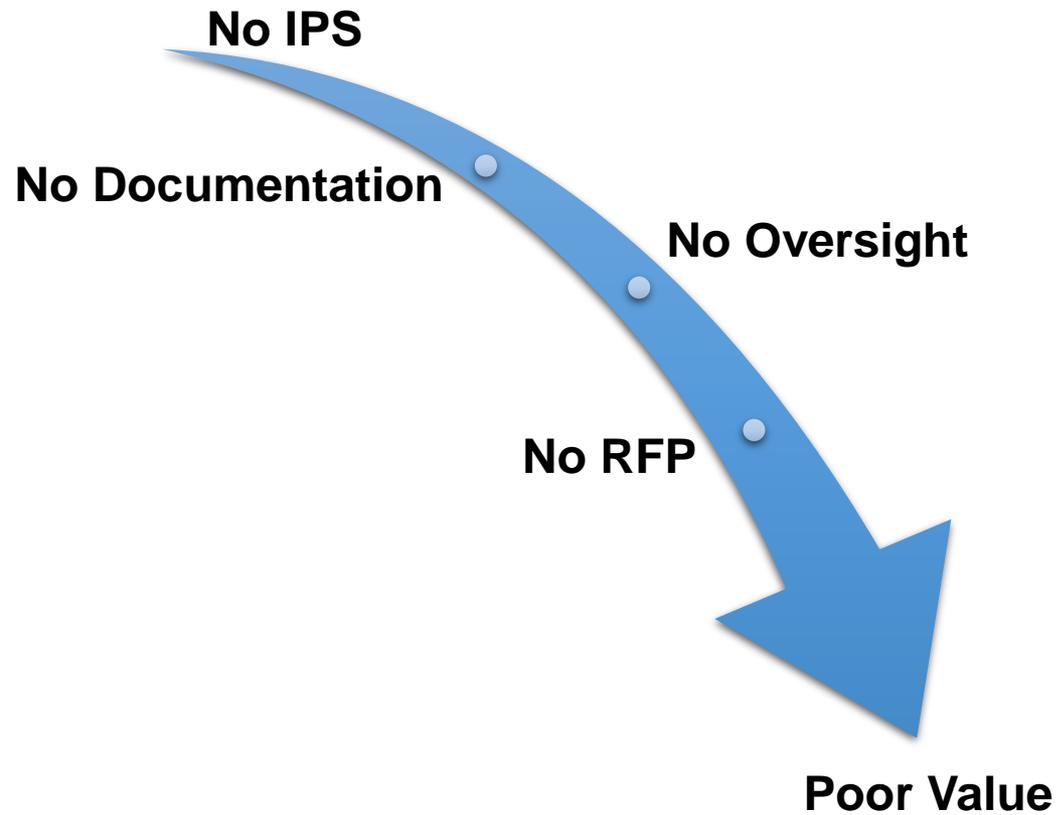
- **Consultant**

- Assists with investment monitoring and fiduciary support
- **Best Practice:** Committee should consider engaging a consultant if they feel they lack the knowledge or expertise to make sound fiduciary decisions



BRIDGE OVER TROUBLED WATER

Traditional Problem Areas



Duties of a Fiduciary



Fees

- Ensure fee transparency
- Understand who is receiving fees
- Benchmark fees & services
- Monitor services that are provided
- Understand indirect revenue generated by the plan

Investments

- Construct and follow an Investment Policy Statement
- Create a simple, sensible menu
- Monitor lineup regularly
- Provide tools for participants and measure employee engagement

Fiduciary Best Practices

- ✓ Create a plan committee
- ✓ Hold regular committee meetings that include a review of:
 - Investments
 - Recordkeeper(s)
 - Other professionals
- ✓ Document these meetings and any relevant discussions or decisions
- ✓ Implement and regularly review an Investment Policy Statement
- ✓ Hire a professional to help, when appropriate
- ✓ Conduct regular RFPs to benchmark fees & services



THE TIMES THEY ARE A-CHANGIN'



cheesecakes

ORIGINAL
The One that Started it All!
Our Famous Creamy Cheesecake with a Graham Cracker Crust and Sour Cream Topping

FRESH STRAWBERRY
The Original Topped with Glazed Fresh Strawberries. Our Most Popular Flavor for 29 Years!

WHITE CHOCOLATE RASPBERRY TRUFFLE™
Creamy Cheesecake Swirled with White Chocolate and Raspberry

GODIVA® CHOCOLATE CHEESECAKE
Layers of Hourless Godiva Chocolate Cake, Godiva Chocolate Ganache and Cream Cheese Mousse

TRES LECHES CHEESECAKE
The Famous Latin Dessert - Cheesecake Style. With Fresh Cream and Delicacies with a Graham-Walnut Crust

*** 6 CARB ORIGINAL CHEESECAKE**
Creamy and Delicious with a Graham-Walnut Crust

FRESH BANANA CREAM CHEESECAKE
Banana Cream Cheesecake Topped with Biscuits

ADAM'S PEANUT BUTTER CHEESECAKE
Creamy Cheesecake Swirled with Caramel, Peanut Butter, and Vanilla

WHITE CHOCOLATE CARAMEL CHEESECAKE
White Chocolate, Espresso and Caramel Swirled

LEMON RASPBERRY CREAM CHEESECAKE
Raspberry-Vanilla Cake, Creamy Lemon Cheesecake, Raspberry Topping

DULCE DE LECHE CARAMEL CHEESECAKE
Caramel Cheesecake Topped with Caramel

CHOCOLATE COCONUT CHEESECAKE
Coconut Cheesecake Topped with Coconut Cream Caramel

TIRAMISU CHEESECAKE
Our Wonderful Cheesecake and Tiramisu Gumbos

CHOCOLATE MOUSSE CHEESECAKE
Silky Chocolate Cheesecake Topped with a Layer of Mousse

VANILLA BEAN CHEESECAKE
Layers of Creamy Vanilla Bean Cheesecake, Vanilla Cheesecake, and Vanilla Cheesecake

CHOCOLATE TUXEDO CHEESECAKE
Layers of Our Fudge Cake, Chocolate Cheesecake, Vanilla Cheesecake, and Vanilla Cheesecake

WHITE CHOCOLATE PEANUT BUTTER CHEESECAKE
White Chocolate Peanut Butter Cheesecake Swirled with Caramel

KAHLUA® COCOA COFFEE CHEESECAKE
Layers of Rich Biscuits, Kahlua Cheesecake, Creamy Chocolate Cheesecake

CHOCOLATE OREO® MUDSLIP CHEESECAKE
Chocolate Oreo Baked in our Creamy Chocolate Cheesecake

DUTCH APPLE CARAMEL CHEESECAKE

cheesecakes and desserts

WILD BLUEBERRY WHITE CHOCOLATE CHEESECAKE™
Original Cheesecake Swirled with Wild Blueberries, Topped with White Chocolate Mousse

LOW CARB CHEESECAKE
Smooth and Creamy with a Graham-Walnut Crust

LOW CARB CHEESECAKE WITH STRAWBERRIES
Graham-Walnut Crust with Fresh Strawberries and Whipped Cream

KEY LIME CHEESECAKE
Key Lime Pie in a Cheesecake! Deliciously Tart and Creamy on a Vanilla Crumb Crust

CARAMEL PECAN TURTLE CHEESECAKE
Pecan Brownie and Caramel-Fudge Swirl Cheesecake, Topped with Caramel Turtle Pecans and Chocolate Mousse

BROWNIE SUNDAE CHEESECAKE
Walnut-Brownie Cheesecake and White Chocolate Mousse Covered with Hot Fudge and Almonds

SNICKERS® BAR CHUNKS AND CHEESECAKE
Snickers Bar Baked Right into Our Creamy Cheesecake and Topped with Fudge and Caramel

CRAIG'S CRAZY CARROT CAKE CHEESECAKE
Carrot Cake and Cheesecake Swirled Together, Topped with Cream Cheese Icing and Roasted Almonds

OREO® CHEESECAKE
Lots of Oreos Baked into Our Creamy Cheesecake

CHERRY CHEESECAKE
A Classic! The Original Topped with Cherry Preserves

PUMPKIN & PUMPKIN PECAN CHEESECAKE
World's Finest Pumpkin Cheesecake Available From Mid-October

A La Mode 1.50 Extra with Hot Fudge 1.50 Extra

SPECIALTY DESSERTS

LINDA'S FUDGE CAKE 6.95
Layers of Rich Chocolate Cake and Fudge Frosting

CARROT CAKE 6.95
Deliciously Moist Layers of Carrot Cake and Our Famous Cream Cheese Icing

CHOCOLATE TOWER TRUFFLE CAKE™ 7.50
Layers and Layers of Fudge Cake with Chocolate Truffle Cream and Chocolate Mousse

LEMONCELLO CREAM TORTE™ 6.95
Layers of Vanilla Cake and Lemon Mascarpone Cream Topped with Streusel and Served with Strawberries and Whipped Cream

TIRAMISU 6.95
Italian Custard Made with Mascarpone, Whipped Cream, Lady Fingers, Marsala and Coffee Liqueur. Topped with Whipped Cream and Ground Chocolate

FRESH STRAWBERRY SHORTCAKE 6.95
Our Own Shortcake Topped with Vanilla Ice Cream, Fresh Strawberries and Whipped Cream

CHRIS' OUTRAGEOUS CHOCOLATE CAKE™ 7.50
A Cheesecake Factory Original - Layers of Moist Chocolate Cake, Chewy Brownie, Toasted Coconut-Pecan Frosting and Creamy Chocolate Chip Coconut Cheesecake

BOWL OF FRESH STRAWBERRIES 6.50

OREO® is a Registered Trademark of Mars, Incorporated. ALL® is a Registered Trademark of BJ Holdings, Inc.
LINDA'S is a Registered Trademark of BJ Holdings, Inc. THE BOWL® Trademark and Fruit Cakes are used under license.
Baskin-Robbins is a Registered Trademark of Unilever, Inc. Kahlua is a Registered Trademark of The J. & F. Company

cheesecakes and desserts

KEY LIME CHEESECAKE
Key Lime Pie in a Cheesecake! Deliciously Tart and Creamy on a Vanilla Crumb Crust

CARAMEL PECAN TURTLE CHEESECAKE
Ganaché-Fudge Swirl Cheesecake, Topped with Caramel Turtle Pecans and Chocolate Mousse

LATE PEANUT BUTTER COOKIE-DOUGH CHEESECAKE
Cookie Dough Swirled with Peanut Butter Caramel-Dough and Topped with Chocolate Mousse

CHOCOLATE RASPBERRY TRUFFLE™
Chocolate-Raspberry Swirl Cheesecake, Chocolate Mousse and Chocolate Ganache

SNICKERS® BAR CHUNKS AND CHEESECAKE
Snickers Bar Baked Right into Our Creamy Cheesecake and Topped with Fudge and Caramel

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A La Mode 1.50 Extra with Hot Fudge 1.50 Extra

SPECIALTY DESSERTS

FUDGE CAKE 6.50
Rich Chocolate Cake with Fudge Frosting

BLACK-OUT CAKE 6.50
Our Deepest, Richest Chocolate Cake with Fudge Frosting

WARM APPLE CRISP 6.95
Layers of Caramel Cake and Our Delicious Crispy Nutsy Topping and Vanilla Ice Cream

CHOCOLATE TOWER TRUFFLE CAKE™ 6.95
Layers of Fudge Cake with Chocolate Truffle Cream and Chocolate Mousse

LEMONCELLO CREAM TORTE™ 6.95
Layers of Vanilla Cake and Lemon Mascarpone Cream Topped with Streusel and Served with Strawberries and Whipped Cream

CHRIS' OUTRAGEOUS CHOCOLATE CAKE™ 6.95
Our Factory Original - Layers of Moist Chocolate Cake, Chewy Brownie, Toasted Coconut-Pecan Filling and Creamy Chocolate Chip Coconut Cheesecake

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Our Own Shortcake Topped with Vanilla Ice Cream, Fresh Strawberries and Whipped Cream

TIRAMISU 6.95
Italian Custard Made with Mascarpone, Whipped Cream, Lady Fingers, Marsala and Coffee Liqueur. Topped with Whipped Cream and Ground Chocolate

According to the PLANSPONSOR Defined Contribution Survey:



ERISA 404(c) Compliance

1. Broad range of investments (at least 3)
2. Participant control and ability to diversify to minimize the risk of large losses
3. Sufficient and appropriate investment information is regularly provided



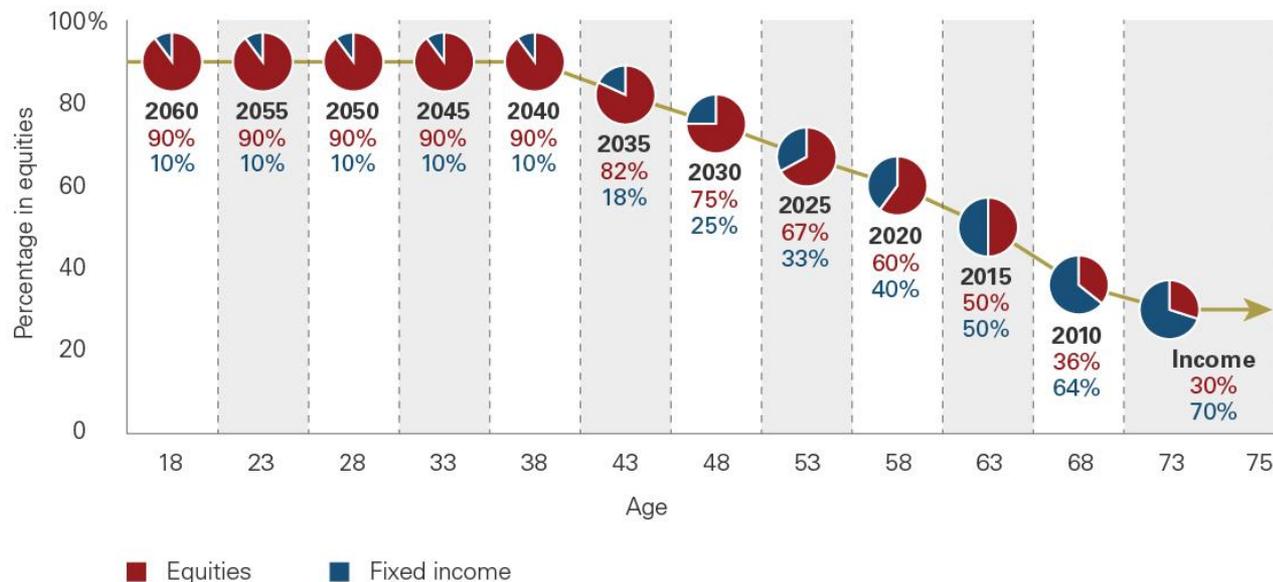
“Do It Myself”

“Help Me Do It”

“Do It For Me”

Do It For Me

- 70%+ of participants want someone else to make the investment decision
- **Solution:** Pre-diversified funds
 - Target Date Funds
 - Balanced Funds
 - Target Risk Funds
 - Managed Accounts



Help Me Do It

- 20% of participants have a moderate comfort level making investment decisions
- **Solution:** Core lineup of 10-20 funds including active & passive options

Very Basic	Basic	Moderate	Complex	
Cash	Cash	Cash	Cash	■ US Fixed
US Aggregate Bond	US Aggregate Bond	US Short Bond	US Short Bond	■ International Fixed
US Aggregate Equities	US Large Cap Equity	US Intermediate Bond	US Intermediate Bond	■ US Equity
	US Mid Cap Equity	US Long Bond	US Long Bond	■ International Equity
	US Small Cap Equity	US Large Cap Growth	US TIPS	■ Alternative
	International Equity	US Large Cap Value	US High Yield	Source: Morningstar
		US Mid Cap Growth	International Bond	
		US Mid Cap Value	Emerging Mkts Bond	
		US Small Cap Growth	US Large Cap Growth	
		US Small Cap Value	US Large Cap Value	
		International Equity	US Small Cap Growth	
		Commodity	US Small Cap Value	
		US REITs	International Growth	
			International Value	
			International Small Cap	
			Emerging Markets	
			Commodity	
			US REITs	
			Intl REITs	

- Less than 10% of participants consider themselves savvy investors
- **Solution:** Self directed brokerage

The Self Directed Brokerage Option allows participants to contribute retirement plan savings into a greatly expanded range of investment choices including, stocks, bonds, and mutual funds. Transaction fees vary and there is often an account set-up fee and an annual account fee.



SUSPICIOUS MINDS





MORE HORRIFYING

Comparing Fees Traditionally



Types of Fees

Plan Administration

- Recordkeeping
- Participant education

Investments

- Explicit - Fund expenses
- “Hidden” - 12b-1, subTA, Proprietary fees

Other

- Investment Advisor / Consultant
- Attorney

The collage consists of three documents:

- EPA Fuel Economy Estimates:** Shows a City MPG of 16, Highway MPG of 22, and an Estimated Annual Fuel Cost of \$2,335 based on 15,000 miles. It also lists a Combined Fuel Economy of 18 mpg.
- Vehicle Specification Sheet:** For a 2008 Ford Focus (9BA01490 NB). It lists features like ABS, air conditioning, and power windows. The price information shows a standard vehicle price of \$36,555.00.
- Government Safety Ratings:** Shows a total MSRP of \$43,875.00. The safety ratings are: Frontal Crash (Driver: To Be Rated, Passenger: To Be Rated), Side Crash (Front seat: To Be Rated, Rear seat: To Be Rated), and Rollover (To Be Rated).

Extra Fees = Working Longer

**The real cost of paying too much in fees!
What an extra 1% in fees could cost you in the long run...**





WHAT'S GOING ON?

A County Considers Consolidation

Current

- Total Plan Assets:
 - \$30M
- Total Plan Providers:
 - Vendor A
 - Vendor B
 - Vendor C
- Total Investment Options:
 - Vendor A (37 + TDF + Risk)
 - Vendor B (36 + TDF + Risk)
 - Vendor C (16 + TDF)

Purposes of Consolidation

- Leverage economies of scale to reduce recordkeeping fees
- Utilize best practices for fee transparency and equalization
- Simplify investment lineup using open architecture approach and lowest net expense share classes
- Offer unified, comprehensive education and communication program across the County
- Streamlining plan administration for Staff

Current Recordkeeping Fee Summary

Current

- Plan Assets:
 - \$30M
- Est. Recordkeeping Fees (\$):
 - \$230,000
- Est. Recordkeeping Fees (%):
 - 0.76%

Constitutional	Vendor A	Vendor B	Vendor C
Group A	\$14.2M	\$8.3M	\$2.8M
Group B	\$0.4M	\$1.1M	\$0.5M
Group C	\$0.3M	\$1.4M	-
Group D	\$0.6M	-	-
Group E	-	\$0.2M	-
Total Assets	\$15.5M	\$11.0M	\$3.3M

Simplified Fund Lineup

S&P 500 Index Example

Funds	Participant Balance	Fund Expense	R/ K Fee (%)	R/ K Fee (per head)	Inv Advisory	Total Annual Fees (\$)	Total Annual Fees (%)	
S& P 500 Index #1	\$ 10,000	0.17% \$ 17	0.95%	\$ 95		\$ 112	1.12%	
S& P 500 Index #2	\$ 10,000	0.20% \$ 20	0.95%	\$ 95		\$ 115	1.15%	
S& P 500 Index #3	\$ 10,000	0.06% \$ 6	0.34%	\$ 34	0.10% \$ 10	\$ 50	0.50%	
S& P 500 Index #4	\$ 10,000	0.04% \$ 4	0.40%	\$ 40	\$ 16	\$ 60	0.60%	
S& P 500 Index	\$ 10,000	0.04% \$ 4				\$ 4	0.04%	
Recordkeeping Fee	\$ 10,000		0.12%	\$ 12		\$ 12	0.12%	
						Total	\$ 16	0.16%
S& P 500 Index	\$ 10,000	0.04% \$ 4				\$ 4	0.04%	
Recordkeeping Fee	\$ 10,000		0.25%	\$ 25		\$ 25	0.25%	
						Total	\$ 29	0.29%

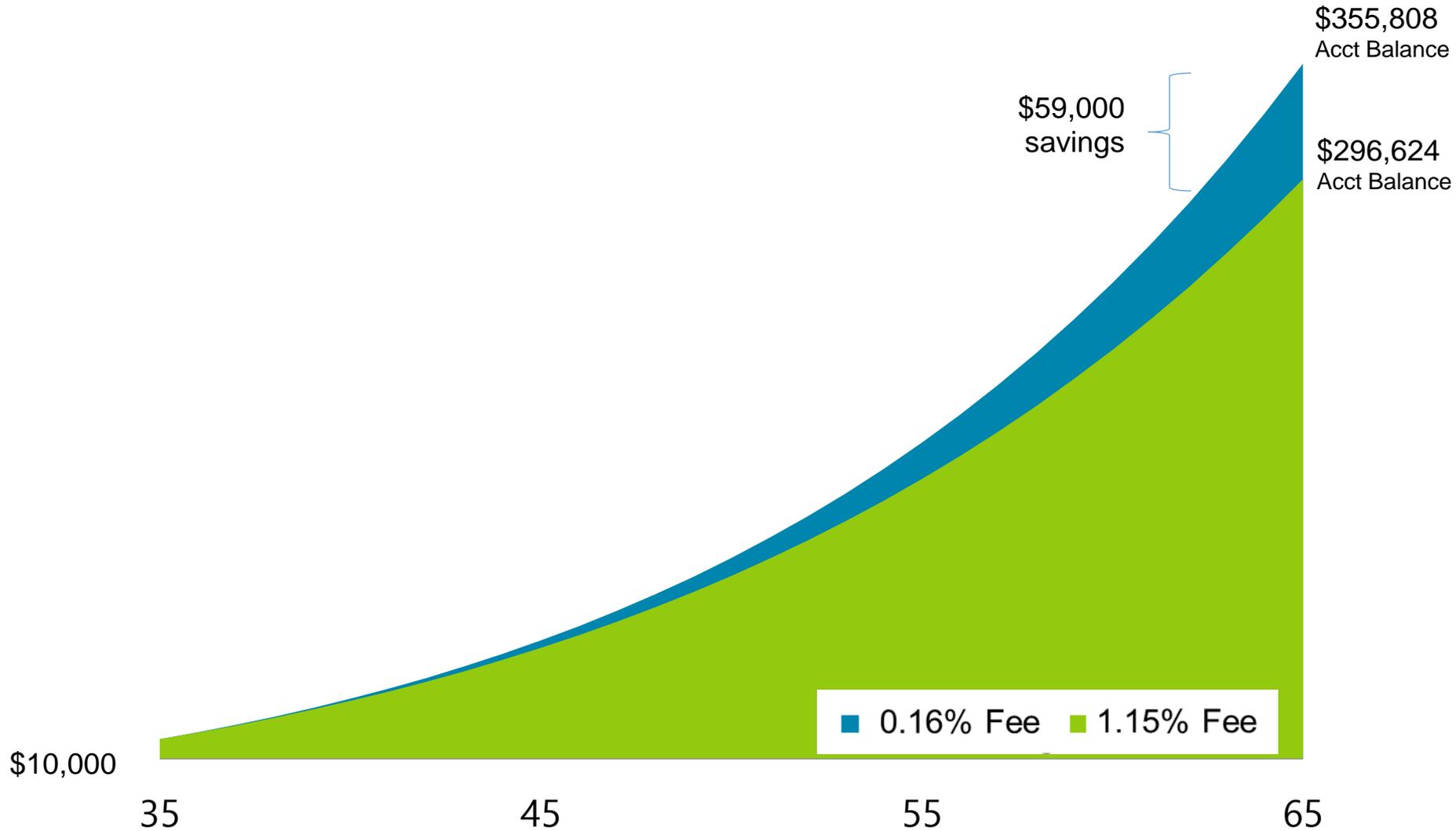
Anticipated Savings

Consolidated

- Plan Assets:
 - \$30M
- Single Plan Provider:
 - Vendor A
- Investment Options:
 - 10-20 core investments
 - Target Date funds (TDFs)
- Recordkeeping Fees (\$):
 - \$36,000 - \$75,000
- Recordkeeping Fees (%):
 - 0.12% - 0.25%
- Annual Fee Savings:
 - \$150,000 - \$200,000

Constitutional	Single Provider
Group A	\$25.3M
Group B	\$1.94M
Group C	\$1.7M
Group D	\$0.6M
Group E	\$0.2M
Total Assets	\$29.7M

Impact of Fee Savings Over 30 Years





Things to Consider when Evaluating Plans

- When were the plan(s) fees and services last benchmarked?
- Determine if consolidation is possible
- Identify if any restrictions in current plans might adversely impact process
- Ensure all parties understand fiduciary responsibilities and agree with primary objective to improve participant value
- Outline goals and objectives for project
- Notify employees in advance of issuing the RFP
- Invite representation from employee unions to be part of the review process
- Recognize the politics but remember there is still a fiduciary duty
- Understand that the typical RFP process will take 4-6 months based on schedules and complexity

Prudence is a process...

but only if you can prove it!

- ✓ Have a process
- ✓ Follow that process
- ✓ Document, document, document

Putting clients first.



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